Partners in Dialogue

“Commodities and the Extractive Sector

Can transparency foster prosperity, progress and development?”

Monday, June 2, 2014
at the Mission of Switzerland to the EU, Place du Luxembourg 1 B, 1050 Brussels

<u>Programme</u>

18:00	***Registration***
18:15	***Welcome note by the Ambassador***
	Panel discussion
19:45	***Reception***

Background

The extractive sector is the mainstay of many developing countries. It has, and will continue to play a significant role in the development of resource-dependent economies. If managed well, including in terms of transparency and revenue administration, the extractive sector can be a strong vector of growth, providing significant opportunities for countries to transform and diversify their economies. However, if not well managed, gas, oil and minerals can lead to the *paradox of plenty* or *resource curse*, which is a situation where resource-abundant countries experience less economic growth and lower development outcomes due to a decline in the competitiveness of other economic sectors, volatility of natural resource revenues, government mismanagement of resources and/or bad institutions. The challenge now is to leverage this high growth to make it truly transformative and inclusive, with long-term benefits for human and economic development. There is a consensus about the importance of increased transparency and better regulations for better development outcomes. But one is yet to have a common understanding of what is *necessary, realistic and implementable* among different stakeholders.

Shared responsibility

Given the nature of the extractive sector, the responsibility of making it work for development is a shared one. ***Resource-dependent countries*** are primarily responsible for the efficient management of their resources and the revenues derived from them. However, ***home countries of extractive industries*** have an equally critical role to play in global governance to ensure that their companies operate in an ethical and transparent manner, to foster a regulatory level-playing field and to prevent reputational risks.

The role that ***companies*** can play in development has gained in prominence, not only at the local level, where they have an decisive economic role through investment and employment creation, but increasingly in international debates, where they are solicited to make ethics as part of their core business. There is a growing recognition that as the extractive sector becomes more sophisticated and vertically integrated, new approaches and standards, inclusive of private actor, are needed.

It is therefore timely to discuss the role of the extractive sector and of commodity trading in development, and in particular to what extent transparency and regulatory reforms can foster prosperity, progress and development in resource-dependent developing countries.

Fields of action

At the **international level**, there are a number of debates and initiatives aiming at the promotion of transparency and accountability in the extractive industries to increase the development impact in resource-rich countries. The *Extractive Industry Transparency Initiative (EITI)* requests companies in compliant countries to disclose taxes and other payments made to government in the oil, gas and mining sector. At the end of 2013, the scope was extended to cover production figures, licensing ownership and revenue allocation made by governments once revenue is collected. Another initiative, which is supported by Switzerland as well as by the EU, is the ***OECD** Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas*[1]. The **US**[2] has passed legislations to request companies listed in their stock markets to disclose payments made to governments in foreign countries. In the **EU**, the new Accounting Directives and the revised Transparency Directive (both adopted in 2013) introduce a new obligation for listed, large non-listed and public-interest entities with activities in the extractive industry and the logging of primary forests to report the payments they make to governments.

Switzerland conducted in 2013 a background report[3] to examine the issue of commodity trading. The report emphasized the importance of the sector for the Swiss economy and highlighted the related possible challenges for development. The report made a series of recommendations to reduce risks and address potential negative side effects the sector could have in developing countries. Subsequently, in March 2014[4], a report on the status of the implementation of the recommendations was prepared. The 2014 report in particular highlighted legislative and voluntary efforts made so far, not only regarding the trading aspect, but also in the financial aspect of the sector.

Building on synergies and differences in European and Swiss approach

Although approaches differ, the European Union and Switzerland have taken a leading role in addressing challenges pertaining to governance and transparency in the extractive sector. While Switzerland has focused mainly on commodity trading activities, essentially due to the strategic importance of the sector for its economy, the EU has, for its part, mainly led initiatives regarding extractive industries.

There is a general policy debate about the merits of industry self-regulatory approach as opposed to a mandatory institutional approach in an attempt to provide a balanced and nuanced framework, that take into account the competitiveness of the trading industry while remaining coherent with development objectives. At the same time, a concerted effort is required among the leading trading hubs: while one leader may set the benchmark for high standards, it is important to have coordinated efforts to avoid losing competitive edge towards those that have a light-touch approach towards regulations.

Leading commodity trading hubs need to engage in constructive dialogues, while seeking synergies and complementarity among their different approaches. Failure to do so might pose reputational risks both for their industries and for the countries where companies are domiciled. More importantly, it will antagonise their efforts and actions in support of developing countries with respect to development, human rights, social and environmental standards.

[1] http://www.oecd.org/corporate/mne/mining.htm
[2] Section 1504 of the US Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
[3] See Background Report on Commodities. 27 March 2013: http://www.news.admin.ch/NSBSubscriber/message/attachments/30136.pdf
[4] See Background Report on Commodities: Status Report on the Implementation of Recommendations. 26 March 2014: http://www.news.admin.ch/NSBSubscriber/message/attachments/34217.pdf